

CONSUMERS GAS COMPANY

Direct Testimony of

C. A. ROBINSON

PRESIDENT

CONSUMERS GAS COMPANY

ICC Docket 00-

August, 2000,

ICC Docket 00-0575-00-0618
Consumers Gas Company CAR-6

Witness

Date 3/19/01 Reporter [signature]

Q. Please state your name and business address.

A. C. A. Robinson, 1410 North Cullen Avenue, Evansville, IN, 47715

Q. What is your relationship to Consumers Gas Company?

A. I am a director, shareholder and have been President of Consumers Gas Company since August, 1988.

Q. Will you briefly describe your duties as President of Consumers Gas Company?

A. I am responsible for the day-to-day and financial operations of the Company. I supervise the gas accounting, fiscal record keeping, customer billings, all administrative and personnel matters, the preparation of tariff sheets and informational filings submitted to the Commission and other miscellaneous documents and matters. I am further responsible for the overall direction of all operations of the Company under the parameters set by the Board of Directors.

Q. Please describe your educational background.

A. I have a Bachelor of Science in Petroleum Engineering from Louisiana Tech. University and am a registered petroleum engineer in the State of Louisiana.

Q. Have you previously testified before the Illinois Commerce Commission?

A. Yes, on several occasions.

- 1 Q. Will you describe the business of Consumers Gas Company?
- 2 A. Consumers is a corporation organized and existing under the Laws of the State of Illinois.
3 It is also a public utility subject to the jurisdiction of the Illinois Commerce Commission under
4 the provisions of the Public Utilities Act of Illinois. The main office of the Company is
5 located in Carmi, Illinois, with outlying offices in Ridgway and Albion, Illinois. The
6 Company's financial records are, pursuant to an Order of this Commission, located in
7 Evansville, Indiana. The Company provides gas service in White County to Carmi, in Gallatin
8 County to Ridgway, Junction, New Haven, Omaha, Old Shawneetown and to the New
9 Shawneetown and Equality municipal systems; in Edwards County to Albion, West Salem,
10 Browns and Bone Gap.
- 11 Q. Did you, relative to this proceeding, cause a Notice to be filed in each of the three Illinois
12 office locations, advising the public of the filing of a proposed general increase in rates?
- 13 A. Yes.
- 14 Q. I show you what has been marked for identification as Exhibit CAR-⁷~~7~~ and ask you if this is
15 a true and correct copy of the Notice posted in each of Consumers' Illinois business offices?
- 16 A. Yes, it is.
- 17 Q. Was the Notice posted in a prominent location within the offices that would be conspicuous
18 to the public?
- 19 A. Yes.
- 20 Q. I show you what has been previously marked for identification as Exhibit CAR-⁸~~7~~ which
21 consists of some five pages and ask you if these are original Certificates of publishers of the
22 five newspapers used for the legal publication?
- 23 A. Yes, they are.
- 24 Q. Are each of these newspapers of general circulation in the area served by Consumers Gas
25 Company?
- 26 A. Yes, they are the only locally published newspapers in our service area.
- 27 Q. Have you made publication in every municipality in the general area in which you provide
28 service, provided a newspaper is published in that community?

1 A. Yes.

2 Q. Were copies of the filed information available to persons making requests through the
3 Company?

4 A. Yes.

5 Q. What test period is the Company using in this proceeding?

6 A. We are using the twelve months ended December 31, 1999, adjusted for known and
7 measurable changes.

8 Q. Mr. Robinson, would you describe the purpose of the Company's filing?

9 A. The Company has filed with the Commission revised tariffs which are designed to increase
10 gross annual revenues, exclusive of gross receipts and gas revenue taxes, by approximately
11 \$507,000.00. This amount represents an approximate 10.27% increase over normalized
12 existing gas operating revenues.

13 Q. Is the Company showing growth in number of customers and related gas sales?

14 A. No.

15 Q. Please explain your answer.

16 A. A decline in gas consumption has been seen for the last couple of years. We believe this
17 decline is attributed to warming weather conditions and conservation by many of Consumers'
18 customers. In addition, the depressed economic conditions (closing of coal mines, shutting
19 down of the oil industry, and lack of any interstate road system) of the communities serviced
20 by Consumers has caused our service area to have no appreciable growth.

21 Q. Do you anticipate the Company will gain additional customers in its existing service areas
22 during the 2000 projection period?

23 A. No, I do not due to economics in our service area and lack of a connecting interstate
24 highways.

25 Q. What is the average number of customers served by Consumers in its 1999 test year?

26 A. 5,976 customers, including the municipal systems of New Shawneetown and Equality which
27 are each counted as one customer. This represents an increase of 208 customers, or 3.5%,
28 over an eight (8) year period.

1 Q. Are you proposing any new classification of customers?

2 A. No.

3 Q. Why is the Company requesting a rate increase at this time?

4 A. Since 1991, the test year used in the Company's last rate case, Consumers Gas has
5 experienced increased costs in almost all aspects of its operations. As I have previously
6 testified in other proceedings before this Commission, Consumers Gas has substantially
7 upgraded its quality of service and overall operational facilities. The most recent upgradings
8 were acquisitions of an office and storage facility in our Albion area and a warehouse in our
9 Ridgway area. Other increased costs are in employees' salaries and related fringe benefits
10 which were required to maintain consistency of employees to continue providing a trouble-
11 free service program to our customers. We have experienced additional increases for
12 insurance, utilities, safety training materials, equipment, replacement expense of the bare steel
13 in our sytem, replacement of our operating and maintenance equipment, and fuel expenses.
14 Consumers, like most businesses, constantly encounters rising costs in line with general
15 inflationary increases. We have experienced only a 3.6% growth in our customer base during
16 the past eight (8) years and have not experienced sales revenue growth sufficient to offset the
17 cumulative effect of these cost increases. The economic conditions, as I previously stated,
18 in our service area have not improved and have been a significant factor, we believe, in the
19 decision of many people to seek residence elsewhere which directly relates to little growth in
20 our customer base. The Company's test year, after proforma adjustments to reflect known
21 and measurable changes as well as normalizing the weather, is expected to experience net
22 operating loss of approximately \$64,000.00 or a negative 1.32% return on its proforma
23 original cost base. Therefore, it is imperative that the Commission approve our requested rate
24 increases.

25 Q. Has the Company presented weather normalized data in this case?

26 A. Yes, Darin Houchin, a witness in this proceeding, made an adjustment, explained in Section
27 285-1010, Schedule A-3, for the normalized weather conditions during the test years, using
28 weather data from Albion, Illinois, which is located in our service territory.

1 Q. What period of time has the Company utilized for normalized data?

2 A. The 30 year period from 1969 to 1999.

3 Q. Does the Company have programs for maintaining trouble-free service to its customers?

4 A. Yes. Consumers complies with the Commission's general orders and has a regular

5 maintenance program for plant facilities. Our employees attend various seminars conducted

6 by either the Commission, the American Gas Association, various manufacturers or suppliers.

7 They also meet with City and County officials, fire departments, and other agencies in our

8 service area in order to coordinate our activities .

9 Q. Does Consumers contract gas storage space?

10 A. Yes, from Egyptian Gas Storage Corporation as approved in Docket No. 97-0039.

11 Consumers has contracted gas storage space for many years and continues to believe that

12 storage is needed not only for peak shaving purposes because Consumers is limited in the

13 amount of daily quantity that can be purchased from its pipeline supplier, but also for

14 economic benefit to its ratepayers. In the event of an interruption of gas delivery to

15 Consumers from our gas supplier, we would be able to supply distribution of gas to Gallatin

16 and White Counties from our gas in storage.

17 Q. What other local distribution gas companies provide gas service to the public in the same

18 general area in Illinois as Consumers?

19 A. Illinois Gas Company and United Cities Gas Company.

20 Q. Have you compared the gas rates and facility charges of Consumers with the previously

21 mentioned gas companies?

22 A. Yes, I have.

23 Q. How does Consumers' facility charges compare with those of the other companies?

24 A. Consumers facility charges are substantially less than those of the other companies.

25 Q. Has the Company made any substantial additions or improvements to its plant?

26 A. Yes, we added net addition of approximately \$126,000.00 since the last rate proceedings.

27 We anticipate this to increase based upon the increased costs associated with the capitalizable

28 portion of the increased proforma costs projected in this proceeding.

- 1 Q. What other significant plant additions have occurred specifically in the eight years of 1991 -
2 1999?
- 3 A. During the past eight years we have purchased training materials and equipment to train our
4 employees. Also, we have purchased a warehouse in Ridgway to house our equipment,
5 purchased an office building in Albion to upgrade our service, remodeled our office in
6 Ridgway to upgrade our service, constructed a five (5) mile 3" steel line from Omaha to
7 connect to our leased storage field, constructed a three (3) mile line to connect to the Village
8 of Brownsville and upgraded our computer system. In addition, Consumers placed an order
9 in March, 2000, to purchase approximately 6,000 new temperature-compensated gas meters
10 which will replace all our existing gas meters.
- 11 Q. What transactions does Consumers have with affiliates?
- 12 A. Consumers rents office space in a building owned by me in Evansville Indiana, which houses
13 other businesses I own and operate and that rental has been approved by the Commission.
14 In addition, Consumers has asked for authority to enter into a contract with Robinson
15 Engineering & Oil Co., Inc. for various engineering services as needed. The rates for the
16 services of Robinson Engineering are substantially less than those of other qualified engineers
17 and, therefore, very reasonable and considered to be on an arms-length basis. Consumers also
18 contracts storage space from Egyptian Gas Storage Corporation and authority for that
19 contract was given by this Commission. Consumers has also filed a Petition to gain approval
20 of financing to be provided by the Old National Bank, Evansville, Indiana, of which I am a
21 member of the Board of Directors.
- 22 Q. Please explain the proposed contract with Robinson Engineering & Oil Co., Inc. concerning
23 plant maps.
- 24 A. Consumers has filed a Petition seeking authority to enter into a contract with Robinson
25 Engineering & Oil Co., Inc., to update the Consumers Gas' plant maps on a computerized
26 state-of-the-art program. It is anticipated that the completion of this project will extend over
27 a 3-year period and cost \$32,200.00. In addition, the Petition seeks an annual fee not to
28 exceed \$5,000.00 per year to maintain and upgrade the maps annually.

- 1 Q. Are the proposed facility charges justified by the cost of service study?
- 2 A. Yes.
- 3 Q. Would you briefly explain the proposed rate structure?
- 4 A. Emphasis is placed upon the facility charge, which will enable the Company to recover more
5 of its cost of service on a monthly basis. Such a rate structure also resembles budgetary
6 billing and, hopefully, will be more beneficial to the ratepayers, especially those on fixed
7 income.
- 8 Q. What rate of return on equity are you requesting?
- 9 A. 13.00%
- 10 Q. Do you believe 13.00% rate of return on equity is justified?
- 11 A. Yes.
- 12 Q. Why?
- 13 A. Consumers is a closely held, small company and has relatively few commercial and industrial
14 customers. The Company anticipates no appreciable growth due to the economic condition
15 in the service territory and the lack of business growth in the rural areas served. Company
16 revenue is extremely weather sensitive and annual earnings vary substantially. We try to
17 restrict the number of rate cases we file because of our small size and the cost of these cases
18 and have learned that the return on equity deteriorates between rate cases. For example, in
19 our last rate case, we were provided an increase which should have produced a 12.7% rate
20 of return on equity but our test year data shows a net operating loss of \$64,000.00. These
21 factors, when considered with the need for operational capital, make the economic risk
22 attached to an investment in Consumers Gas, in my opinion, greater than the risk related to
23 an investment in a public held company or other medium-sized distribution companies in
24 Central or Northern Illinois where the heating season is greater. Our Company stockholders
25 are entitled to a reasonable rate of return which they are not obtaining under current rates and
26 rate of return
- 27 Q. What are the major considerations underlying the Company's proposed rate design?
- 28 A. First, the need to generate additional revenues without imposing large, seasonable cash flow

1 demands on the ratepayers and fairly distributing the increase among all classes of customers.
2 Secondly, a reasonable allocation of the rates based upon a cost of service study rather than
3 based upon consideration of ability to pay which should bring the service charges more
4 closely in line with the cost of providing services.

5 Q. What do you expect your short-term borrowing needs to be for the proforma period?

6 A. First, the need to generate additional revenues without imposing large, seasonable cash flow
7 demands on the ratepayers and fairly distributing the increase among all classes of customers.
8 Secondly, a reasonable allocation of the rates based upon a cost of service study rather than
9 based upon consideration of ability to pay which should bring the service charges more
10 closely in line with the cost of providing services.

11 Q. What do you expect your short-term borrowing needs to be for the proforma period?

12 A. Our primary need will be to purchase storage gas this summer to be available for our
13 customers during the next winter season. Also, short-term borrowing will be necessary to
14 purchase some 600 new gas meters each year for the next 10 years.

15 Q. What do you expect the interest rate to be for the short term loans?

16 A. Consumers will borrow at the prime rate which is presently 9½% .

17 Q. Does this conclude your testimony?

18 A. Yes, it does.
19
20
21
22
23
24
25
26
27
28